

South Carolina Department of Health and Environmental Control

Columbia, South Carolina

Report on Agreed-Upon Procedures

for the year ended June 30, 1999

Contents

| | |
|---|------|
| Independent Accountants' Report on Applying Agreed-Upon Procedures..... | 1-4 |
| Accountants' Comments..... | 5-6 |
| Status of Prior Findings | 7 |
| Management's Response..... | 8-13 |

Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the board and management of the South Carolina Department of Health and Environmental Control (the "Department") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999 in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if the recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations with those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations, and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in STARS as reflected on the Comptroller General's reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and that the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in STARS as reflected on the Comptroller General's reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures with those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1999, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Comment 3 in the Accountants' Comments section of this report.
7. We tested and made inquiries regarding the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our finding as a result of these procedures is presented in Comment 3 in the Accountants' Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountants' Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1998 to determine if adequate corrective action had been taken. Our findings as a result of these procedures are presented in the Status of Prior Findings section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Department and submitted to the Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comments 1 and 2 of the Accountants' Comments section of this report.

10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, South Carolina Office of the State Auditor and the governing body and management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
June 19, 2000

Accountants' Comments

Accountants' Comments

We noted the following matters during our engagement:

1. CLOSING PACKAGES

We noted the following from our review of closing packages:

- A. We noted three instances in which certain closing package documents were dated after the Comptroller General's deadline.
- B. There were two instances in which the closing package reviewer checklist was missing entirely.

The Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) clearly states deadlines for submission and procedures for reviewing the preparer's work. Section 1.8 of the GAAP Manual requires timely submission of closing packages, effective review of each closing package and underlying support, and completion of a reviewers checklist for each closing package. We recommend that the Department carefully read, understand, and adhere to the procedures for completing the closing packages in accordance with the Comptroller General's instructions.

2. COMPENSATED ABSENCES

The compensated absences closing package for the Department reported unused holiday compensatory time and overtime compensatory time liabilities together as one amount. These two types of time should be separated on the Closing Package. The Department's software program does not include an identifier to separate holiday time from overtime time. A similar finding was cited in the prior year's report on applying agreed-upon procedures.

Section 3.17 of the GAAP Manual requires the values of holiday compensatory time and overtime compensatory time to be listed separately on the form. Furthermore, State Human Resources Regulations 19-703.04 and 19-703.06 have different restrictions for overtime and holiday compensatory leave.

We recommend that the Department make necessary programming changes so that holiday and overtime compensatory time may be separately identified, monitored, and reported to the Comptroller General.

3. MONTHLY RECONCILIATIONS

In performing our procedures on monthly reconciliations of cash, revenues, and expenditures, we noted that the reconciliations were not complete for the months of July through December 1998.

Section 2.1.7.20.c. of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires monthly reconciliations for cash, revenues and expenditures be performed at the level of detail in the Appropriation Act to facilitate error detection and correction. Proper reconciliation of cash, revenue, and expenditure balances in the Department's accounting records and those in the State's accounting system (STARS) requires that certain procedures be followed. We recommend that these procedures and that the reconciliations be properly and timely performed and carefully reviewed. Further, we recommend that the preparation and review of the reconciliations be properly documented.

Status of Prior Findings

Status of Prior Findings

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Independent Accountant's Report on Agreed-Upon Procedures to the accounting records and internal controls of the Department for the fiscal year ended June 30, 1998, dated June 29, 1999. We determined that the Department has taken corrective action on all of the deficiencies that were included in the prior year report except for the matter discussed in Comment 2 of the Accountants' Comments section of this report.

Management's Response



PROMOTE PROTECT PROSPER

2600 Bull Street
Columbia, SC 29201-1708

COMMISSIONER: June 29, 2000
Douglas E. Bryant

BOARD: Ms. Tracy Jacobs
Bradford W. Wyche Scott McElveen, LLR
Chairman 1441 Main Street
Suite 1200
William M. Hull, Jr., MD P.O. Box 8388
Vice Chairman Columbia, SC 29202
Mark B. Kent
Secretary

Howard L. Brilliant, MD Dear Ms. Jacobs:

Brian K. Smith
Rodney L. Grandy
Larry R. Chewning, Jr., DMD
We have reviewed the three audit findings presented in the Draft Report on Agreed Upon Procedures for the year ended June 30, 1999, and offer the following response for your consideration.

Recommendation: We recommend that the Department carefully read, understand, and adhere to the procedures for completing the closing packages in accordance with the Comptroller General's instructions.

Response: The Department concurs with the recommendation and will take appropriate steps to ensure all deadlines are met and appropriate reviews are documented prior to submission of all closing packages.

Recommendation: We recommend that the Department make necessary programming changes so that holiday and overtime compensatory time may be separately identified, monitored, and reported to the Comptroller General.

Response: In an attempt to comply with the above finding, the Office of Personnel Services met with the Office of Human Resource Management (OHR) and other state agencies in a collaborative effort to use the Office of Human Resource Management Financial Data Systems leave component. The OHR leave component had the capability to address the separation of holiday compensatory time from overtime compensatory time. However, after numerous meetings with OHR, the decision was made not to use the OHR system due to the cost of maintaining the system. At this point, the Agency developed the attached Holiday Compensatory Time Record. This form was implemented in the first quarter of FY2000, and is used to separate holiday compensatory time from overtime compensatory time for the year ending June 30, 2000. We are currently in compliance regarding compensated absences. (See attachments)

Recommendation: We recommend that these procedures and that the reconciliations be properly and timely performed and carefully reviewed. Further, we recommend that the

preparation and review of the reconciliations be properly documented.

Response: The Department understands the requirements for properly documented reconciliations conducted in a timely manner. The uncompleted reconciliations (July – December 1998) are not indicative of the Department's policies and procedures. These omissions are directly related to the closing of the FY1998 fiscal books and the implementation of our new accounting system. Since FY1998 was the first year the entire Agency was under the new system, it took an exceptional amount of time to complete the closing and balancing of the fiscal year-end. As such, the effort during July – November was in ensuring proper year-end activity as well as process development. The monthly reconciliations for FY1999 were run and reviewed for major problem areas but were not completely finalized. The first finalized reconciliation was January 1999. Since that time, each month has been reconciled (except for July 1999 due to FM13 activity). We therefore believe that this finding has already been rectified and should not be a problem in the future.

We appreciate the thorough work of your auditors. If you have any questions, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Douglas Calvert", with a long horizontal flourish extending to the right.

R. Douglas Calvert
Chief Operating Officer

Attachments

cc: Douglas E. Bryant, MPH, Commissioner
John T. Watson, CPA, Director, Bureau of Finance
Douglas E. Cooper, CGFO, Assistant Director, Bureau of Finance
Allan F. Pregnall, Director, Office of Personnel Services
Mary I. Fuhrman, CPA, CIA, Director, Office of Internal Audits

July 7, 1999

MEMORANDUM

TO: Tommy Watson, Director
Bureau of Finance

FROM: Allan F. Pregnall, Director
Office of Personnel Services

SUBJECT: Holiday Compensatory Time

This is in response to the Potential Management Letter Points finding for the Audit period ending June 30, 1998 regarding holiday compensatory time. We were not able to modify our leave program to separately identify holiday and overtime time compensatory time. The Agency planned to use the Office of Human Resources Leave System in order to track holiday compensatory time separately. However, the cost to use the Office of Human Resources System was prohibitive. We contacted other agencies comparable in size to learn how they are tracking holiday compensatory time. These agencies are using a manual log at the local level to separate holiday compensatory time from regular overtime. We are developing a similar log to use within the agency at the local level which will be similar to the attachment.

Let me know if you have any questions concerning this response.

Attachment

gave form to per. coord 9-22 mtg.

Holiday Compensatory Time Record

District/CD Location:**Social Security #:**

Name:

[illegible]

*** Holiday comp time is compensated at straight time**

0-4-99

From: Donna W. Chrisley
To: district, co/pc
Subject: Holiday Compensatory Time Record

The approved Holiday Compensatory Time Record is being mailed to coordinators who attended the Personnel Coordinator meeting on September 22. Forms should be maintained locally. To comply with the State Auditor's request, this **record should be submitted at the end of each fiscal year for employees with a balance of holiday compensatory time.** Date for submission will be announced at a later time. Forms may be reproduced locally.

If you have any questions, please let me know.

MEMORANDUM

TO: District Administrators, Personnel Coordinators

FROM: Mary Duncan, Information Manager
Donna Chrisley, Benefits Manager
Office of Personnel Services

SUBJECT: OHR Leave System

During the past few months, the Office of Personnel Services has been exploring the possibility of using a new Leave System module developed by the Office of Human Resources. This option has been mentioned in previous District Administrator meetings and we have been working with a few districts collecting test data for the conversion to the new Leave module.

We have recently found out that the Office of Information Resources will have to charge agencies for the use of this module. They have set an initial fee per month and will be reassessing the fee after six months. This fee has proved to be cost prohibitive to DHEC, considering our current Leave System provides us adequate functionality. Therefore, we will not be converting to OHR's Leave System at this time.

Please call either Donna Chrisley or Mary Duncan if you have any questions regarding this decision. Thanks again to those areas that assisted us with the test data.